

# KASNEB

## ATD LEVEL III

### AUDITING

TUESDAY: 22 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question.

#### QUESTION ONE

- (a) An auditor of financial statements must be an accountant but an accountant is not necessarily an auditor.  
With reference to the above statement, distinguish between "accounting" and "auditing". (10 marks)
- (b) Tumaini Ltd. is in the process of setting up an internal audit function.  
Summarise ten benefits that would accrue to the company upon setting up the internal audit function. (10 marks)  
(Total: 20 marks)

#### QUESTION TWO

- (a) Discuss five factors that would affect the sufficiency of audit evidence gathered by an auditor. (10 marks)
- (b) Audit working papers are the documents prepared or obtained by the auditors in connection with an audit.  
In relation to audit working papers, outline five contents of:  
(i) Permanent audit file. (5 marks)  
(ii) Current audit file. (5 marks)  
(Total: 20 marks)

#### QUESTION THREE

- (a) In the context of internal control, describe five elements of the internal control environment that might be relevant when obtaining an understanding of the control environment. (10 marks)
- (b) You have been assigned to undertake an audit on general controls relating to purchase of goods. Examine five control procedures you would verify in your assignment. (10 marks)  
(Total: 20 marks)

#### QUESTION FOUR

- (a) Outline four factors that might affect the form and nature of audit planning. (4 marks)
- (b) One of the myths around use of audit interrogation software is that it is expensive. However, modern programs are certainly relatively cheap compared with employing people.  
Therefore, use of such tools is becoming more prevalent.  
**Required:**  
Highlight eight uses of an audit software to an auditor. (8 marks)
- (c) In relation to auditor's report, discuss the following:  
(i) Unqualified opinion. (2 marks)  
(ii) Adverse opinion. (2 marks)  
(iii) Qualified opinion. (2 marks)  
(iv) Disclaimer of opinion. (2 marks)  
(Total: 20 marks)

#### QUESTION FIVE

- (a) Distinguish between "errors" and "fraud". (4 marks)
- (b) Explain five fundamental ethical principles that auditors are required to follow. (10 marks)
- (c) A professional accountant should maintain confidentiality at all times.  
With reference to the above statement, analyse three circumstances where professional accountants might be required to disclose confidential information or when such disclosure might be appropriate. (6 marks)  
(Total: 20 marks)